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## Business loans: securing a loan for your company; Business advice from CPAs

American Institute of Certified Public Accountants. Communications Division

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## **D** EVELOPING THE LOAN REQUEST

Submitting an acceptable loan request requires more than a little financial know-how. And though you know more about your business than anyone else, you may not be the most qualified person to prepare and present your loan request. A CPA can assist you in identifying the most appropriate funding sources and in preparing a funding proposal that will help you get the loan you need.

### A CPA CAN HELP YOU

- ◆ Determine whether or not you really need a loan and if it will solve your company's problems and meet your objectives.
- ◆ Ascertain your banking community's requirements for securing a loan.
- ◆ Review significant aspects of your business and prepare key ratios for developing trends.
- ◆ Draw up a realistic forecast of your company's future based on its past performance and future goals.
- ◆ Determine the size of the loan you need and calculate a repayment schedule and interest cost you can comfortably handle.
- ◆ Negotiate the terms of the loan agreement.
- ◆ Prepare financial statements, projections and plans that lenders will request from you.

The financial expertise of a CPA can make the difference in securing your business' future. CPAs have insight into many different types of businesses, as well as experience in start-up companies. By helping you present a complete picture of your business to potential lenders, they can help you obtain the funding you need. Before you go to a bank, contact a CPA.

## **AICPA** "The Measure of Excellence"

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## **B** U S I N E S S

## **L** O A N S

### *Securing a Loan for Your Company*

**B** U S I N E S S

**A** D V I C E

**F** R O M

**C** P A S



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*Securing a loan to start or expand your business is a time-consuming and, in some cases, a frustrating process. Taking the following steps can help expedite the process and ensure your success in obtaining the funding you need.*

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- ◆ PREPARE A REALISTIC LOAN REQUEST.
- ◆ LEARN WHAT A BANKER LOOKS FOR.
- ◆ SEEK ADVICE FROM A CERTIFIED PUBLIC ACCOUNTANT (CPA) WHO UNDERSTANDS THE LOAN APPLICATION PROCESS.

By including your CPA in the relationship between your bank and business, you can greatly ease the frustrations of applying for a loan and increase your chances of success.

## **P** REPARATION PAYS

To present yourself and your company as favorably as possible, you should be able to state your reasons for requesting a loan clearly and professionally. Before you approach the bank about a loan, ask yourself:

- ◆ Why do I want a bank loan?
- ◆ How will the loan help my business?
- ◆ What type of loan do I need? Short-term? Long-term?
- ◆ How much do I need to borrow?
- ◆ How will the money be utilized?
- ◆ Do I have a clear and realistic plan to generate additional funds to repay the debt?

Your ability to answer these questions confidently will help you present your company as a soundly managed one. A CPA can help you prepare the information you will need to provide appropriate answers to a lender's questions.

## **T** HE BANKER'S PERSPECTIVE

You may be seeking a loan for a variety of reasons, but keep in mind that the bank is responsible for lending depositors' monies. In order to determine your ability to repay the loan, the bank will evaluate your *character*, the *collateral* you offer, and the *capacity* of your business to repay. Additionally, the bank will need a complete financial and background analysis of you and your company. Specifically, the lender will need the following information:

- ◆ Your business' plans and objectives
- ◆ Data on your business' ownership, finances, history, operations, and personnel
- ◆ A comparison of your operating and balance sheet ratios to industry averages
- ◆ A marketing plan indicating your business' potential growth areas
- ◆ A cash flow analysis of your actual past experience, and projections of future income, expenses, and cash flow

Loan officers will use this information in determining whether or not your loan request should be approved. Requesting a loan to satisfy creditors, unless accompanied by a convincing strategy to improve your financial situation, is usually not viewed favorably by a banker. If you're having trouble paying creditors now, chances are that you are not generating enough income to repay the loan. This is a risk bankers are usually not willing to take.

## **G** ATHERING FINANCIAL DATA

In considering your loan request, potential lenders will want to review as much financial data about your company as possible, whether it's a start-up or an established business. Here is some information bankers may look for:

- ◆ A summary of the average amounts of funds on deposit
- ◆ A list of investments, fixed assets, other assets, and detailed or supplementary schedules, giving market or appraisal value where appropriate
- ◆ The aging of receivables, with details regarding any concentration in a few customers
- ◆ The details of notes receivable and the risks of collection
- ◆ Inventories with details on price stability, aging and turnover
- ◆ Your liabilities and reserves, with appropriate explanations

In addition, bankers may request detailed information on collateral to be offered and may require personal financial statements. This is particularly true when the company is closely held or if a loan guarantee agreement is involved.

Always be honest about your financial situation. Whenever possible, any unfavorable information should be accompanied by details of management's plans to overcome the problem. Your CPA can help compile the financial data, prepare a business plan, and present information to selected lenders effectively.